



Award GFOA Certificate

Certificate of Achievement for Excellence in Financial Reporting

Presented to

California State Teachers' Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



William Patrick Pate
President

Jeffrey L. Esser
Executive Director



**Public Pension Coordinating Council
Public Pension Principles
2000 Achievement Award**

Presented to

California State Teachers' Retirement System

In recognition of instituting professional standards for public employee retirement systems as established by the Public Pension Principles.

Presented by the Public Pension Coordinating Council, a confederation of
Government Finance Officers Association (GFOA)
National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

A handwritten signature in black ink, reading 'Michael L. Mory', is positioned above the printed name and title.

Michael L. Mory
Chairman



CEO Letter of Transmittal

December 20, 2002

California State Teachers' Retirement System
Post Office Box 15275
Sacramento, CA 95851-0275



I am pleased to present the Comprehensive Annual Financial Report of the California State Teachers' Retirement System for the fiscal year ended June 30, 2002. The report is intended to provide complete and reliable information as a basis for making management decisions, determining compliance with legal provisions and determining responsible stewardship of the State Teachers' Retirement Plan and the CalSTRS Voluntary Investment Program. Please note the State Teachers' Retirement Plan consists of the Defined Benefit, Defined Benefit Supplement and Cash Balance Benefit programs.

I believe this report will be helpful to the California Legislature, CalSTRS members and other interested parties in understanding the California State Teachers' Retirement System, established by law in 1913 to provide retirement benefits to California's public school educators. Responsibility for both the accuracy and completeness of the financial data and the fairness of the presentation rests with me and the management of CalSTRS.

CalSTRS members, as of June 30, 2002, included employees of approximately 1,200 school districts, community college districts, county offices of education and regional occupational programs (listed starting on page 87).

The 2002 CAFR consists of five sections:

The **introductory section** contains this letter of transmittal, the administrative organization and a review of CalSTRS achievements and activities.

The **financial section** includes the report of the independent auditor, the system's financial statements and

supplemental information for the Teachers' Retirement Plan and CalSTRS Voluntary Investment Program.

The **investment section** contains a consultant's report summarizing investment activity, an explanation of investment policy, portfolio performance information and various investment schedules for the State Teachers' Retirement Plan. Investment of the Defined Benefit Supplement and Cash Balance Benefit programs contributions are also discussed. Investment information is not included for the CalSTRS Voluntary Investment Program since all investments are member-directed into mutual funds.

The **actuarial section** includes the actuary's certification letters and summaries for both the CalSTRS Defined Benefit and Cash Balance Benefit programs, in addition to the results of the latest actuarial valuations.

The **statistical section** includes information on the CalSTRS Defined Benefit Program, Cash Balance Benefit Program and CalSTRS Voluntary Investment Program.

INVESTMENTS

The prolonged negative (bear) market in U.S. and Non-U.S. stocks contributed to a second year of decline in the market value of the CalSTRS' investment portfolio from \$102.8 to \$96.7 billion. The best portfolio strategy during difficult times is portfolio diversification. The declines in the U.S. and Non-U.S. equity portfolio were lessened by the strong positive returns in the Fixed Income and Real Estate portfolio. The CalSTRS' investment portfolio is

invested in a broad number of asset classes and strategies to capture opportunities throughout the economic cycle. CalSTRS continues to be very well funded to meet all the benefit obligations to present-day retirees and future retirees.

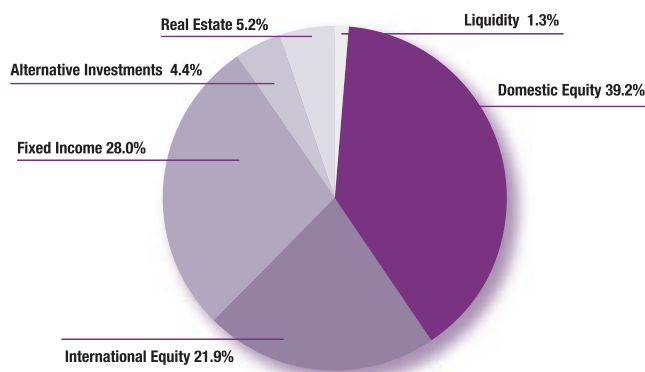
During this difficult market, diversification has continued to benefit the Teachers' Retirement Fund. This is evident when comparing CalSTRS' current experience with that of the corporate pension funds during the last deep bear market of 1974–1975, when many of those funds declined over 25 percent. During this two-year bear market, the CalSTRS' portfolio has declined roughly 15 percent from its peak, all while capturing most of the great positive returns from the late 1990's. As students of financial history, the Investment Committee and investment staff anticipate that markets will cycle and have developed a strategy to ensure the long-term strength of the CalSTRS' portfolio. At the end of the fiscal year the CalSTRS' portfolio allocation was as follows: U.S. Equity 39.2 percent, Non-U.S. Equity 21.9 percent, Private Equity 4.4 percent, Fixed Income 28.0 percent, Real Estate 5.2 percent and short-term investments (cash) 1.3 percent.

FUNDING

The most recent actuarial valuation, for the fiscal year ended June 30, 2001, shows the Defined Benefit Program has an unfunded actuarial obligation, having 98 percent of the funds needed to pay the cost of the benefit plan in effect on June 30, 2001. Under state law, the Defined Benefit Program receives state General Fund contributions set at a percentage of the prior calendar year's member payroll (see page 68). The cost of administering the State Teachers' Retirement Plan is financed through the contributions and investment earnings of the plan.

Asset Allocation (6/30/02)

Total investment portfolio of \$96.7 billion



INITIATIVES

As the third largest pension fund in the U.S., CalSTRS is stepping out onto the national scene to aggressively pursue financial market reforms. This is being accomplished through greater publicity in the news media for CalSTRS' corporate governance actions, an active voice in Washington supporting passage of federal legislation to ensure corporate accountability and even litigation to punish those responsible for the recent corporate scandals and deter future scandals.

In addition to looking outward, CalSTRS has a major initiative focused on its core inner function: service to the members. Despite a severe state budget deficit, CalSTRS successfully sponsored legislation that was signed into law authorizing \$1.8 million to improve CalSTRS' customer service. This initiative will provide for additional human and technology resources to provide the highest standard of service, comparable to that found in private sector financial services organizations.



AWARDS

The Government Finance Officers Association of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the California State Teachers' Retirement System for its comprehensive annual financial report for the year ended June 30, 2001. This was the fifth consecutive year that CalSTRS has achieved this prestigious award.

In order to be awarded the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

CalSTRS also was awarded the Public Pension Coordinating Council's Public Pension Principles Achievement Award in 2000. This two-year award is for achievement of high professional standards for public employee retirement systems. The award is based on compliance with principles that support retirement system achievements in the areas of benefits, actuarial valuations, financial reporting, investments and disclosures to members.

ACKNOWLEDGMENTS

The compilation of this comprehensive annual financial report reflects the combined effort of CalSTRS staff under the leadership of the Teachers' Retirement Board. I commend their efforts on creating another outstanding report. In addition, I take this opportunity to express my gratitude to the staff, advisors and the many other people and organizations who have worked so diligently to assure the successful operation of the California State Teachers' Retirement System.

Respectfully submitted,

Jack Ehnes
Chief Executive Officer



Teachers' Retirement Board

(AS OF DECEMBER 31, 2002)

Gary Lynes
Chairperson
(K-12 Classroom Teacher)
Hillsborough

Term:
December 1994 to
December 30, 1998*



Phil Angelides
State Treasurer
Ex-Officio Member



Paul G. Krasnow
(Insurance Representative)

Term:
February 22, 2001 to
February 22, 2005



Kathleen Connell
State Controller
Ex-Officio Member



Karen A. Russell
Vice Chairperson
(K-12 Classroom Teacher)

Term:
February 22, 2001 to
February 22, 2005



Delaine Eastin
**Superintendent of
Public Instruction**
Ex-Officio Member



Jay Schenier
(School Board Representative)

Term:
February 22, 2001 to
February 22, 2005



B. Timothy Gage
**Director, Department
of Finance**
Ex-Officio Member



Carolyn A. Widener
(Community College Instructor)

Term:
February 22, 2001 to
February 22, 2005



*Vacant: Banking Official, System Retiree
and Public Representative*

** Member continues to serve at Governor's discretion.*



Executive Staff

(AS OF DECEMBER 31, 2002)

Jack Ehnes
Chief Executive Officer



Christopher J. Ailman
Chief Investment Officer



Peggy A. Plett
Deputy Chief Executive Officer
Client Benefits and Services



Ed Derman
Deputy Chief Executive Officer
External Affairs and Program Development



Bill Hobbs
Acting Deputy Chief Executive Officer
Enterprise Initiatives and Technology



Christopher Waddell
Chief Counsel



Professional Services

CalSTRS contracts for the services of various independent consultants essential to the effective and professional operation of the system. Milliman USA provides actuarial services and the independent auditor is PricewaterhouseCoopers, LLP. Lists of investment professionals for investment services and other consultants are provided on schedules four and five in the financial section of the report. A partial list of independent consultants is shown.

- Carroll & Scully, Inc.
- Hogan and Hartson
- Liebman & Associates
- Milliman USA
- PricewaterhouseCoopers, LLP
- Towers & Perrin



Year in review

MEMBERSHIP

Membership in the CalSTRS Defined Benefit Program includes California public school employees, kindergarten through community college, who teach, are involved in the selection and preparation of instructional materials, or are supervising persons engaged in those activities.

Membership is in effect as long as the contributions remain on deposit with the program.

Members are employed in approximately 1,200 public school districts, community college districts, county offices of education and state reporting entities in California. The CalSTRS Defined Benefit Program includes service retirement, benefits for survivors and disability benefits.

A beneficiary of a retired member who has elected a joint and survivor option receives a continuing lifetime allowance upon the retired member's death.

As of June 30, 2002, there were a total of 538,367 active and inactive members and 177,069 retired members, disability and survivor benefit recipients. The combined total of members and benefit recipients equals 715,436, an increase of 28,577 more than the previous fiscal year.

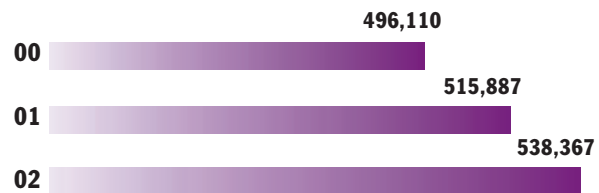
(The audit report of the independent auditors, presented in the financial section, contains Defined Benefit Program membership data as of June 30, 2001, due to the timing of that report.)

BENEFITS TO MEMBERS AND BENEFIT RECIPIENTS

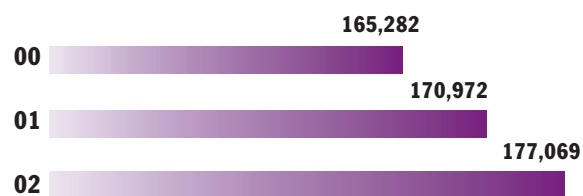
Service Retirement

CalSTRS desires the retirement process to be positive, rewarding and comfortable for the members. CalSTRS believes fast, accurate and efficient benefit payments are fundamental to achieving this goal.

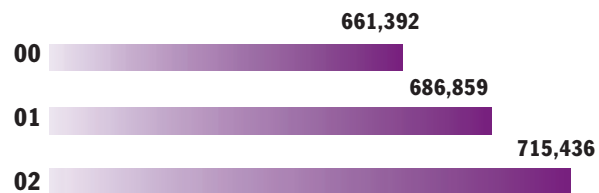
Of the 9,762 members who retired in 2001–02 fiscal year, 99 percent received his or her first benefit payment within the CalSTRS-established goal of issuing payment within 30 days following the person's retirement date (or after receipt of the completed application). CalSTRS' 30-day goal exceeds the 45-day standard mandated by law.



Active and Inactive Members



Benefit Recipients



Total Members and Benefit Recipients

Survivor Benefits

CalSTRS received 5,655 survivor benefits applications. Of the applications received, 83 percent were processed within the 45-day legislative standard and 75 percent were processed within 30 days.

Disability

The Disability Services Division received 679 disability applications during the 2001–02 fiscal year.

With a strong commitment to member service, the Initial Review Team processed 100 percent of all applications within six months from the date of receipt.

The work of the Continuing Qualifications and Vocational Rehabilitation programs resulted in an annual savings of more than \$2.3 million to CalSTRS.

SERVICES TO MEMBERS AND BENEFICIARIES

Public Service

Public Service staff answered 191,602 calls and the CalSTRS automated attendant telephone system received 53,473. The automated interactive telephone system, Teletalk, received 79,377 calls. CalSTRS is proud of the fact that 97.53 percent of the telephone calls handled by staff were answered in the initial call, thus avoiding the need to call the member again. According to a comparative study of telephone service, this performance level rates as a “best in class” practice.

Also, 66.3 percent of all calls were answered within 3 minutes or less.

In addition, the Public Service Office received 31,561 pieces of correspondence from members and other interested parties.

Member Communication

CalSTRS communicates with members and beneficiaries through the *Bulletin* and the *Retired Educator*. The *Bulletin* is mailed twice a year to active and inactive members. It contains information from CalSTRS’ Chief Executive Officer and the Teachers’ Retirement Board. Also presented are legislative summaries and discussions concerning educator issues.

The *Retired Educator* is mailed twice a year to retired members and benefit recipients. It contains issues and information of special interest to them.

A detailed program book and single-topic brochures are mailed upon request, given to members during personal interviews and are available to employers and employees by mail or telephone request. CalSTRS mails the *New Member Guide* to newly hired educators.

CalSTRS Internet Web Site

The CalSTRS Web site is intended to provide information for members, employers and CalSTRS’ business partners. The CalSTRS Web site includes many useful features, such as the Retirement Benefit Calculator, which allow members to estimate their retirement benefit; an online feedback form; and the Employer Page to provide county and school district personnel with pertinent information. A variety of other features, ranging from the monthly Teachers’ Retirement Board agenda to various CalSTRS publications are updated throughout the year.

Financial Education Program

Twenty-nine Financial Education Program workshops were presented throughout the state. Information regarding CalSTRS benefits, financial planning and applicable Social Security provisions were presented to more than 1,448 members and their guests.



Retirement Planning Workshops

Personal retirement benefit interviews were provided to 31,699 members. In addition, 454 workshops covering retirement, disability and survivor benefits were presented to 13,895 members. These interviews and workshops allow members a chance to have direct contact with staff who answer their questions.

SERVICES TO EMPLOYERS, MEMBER AND CLIENT ORGANIZATIONS

The Employer Advisory Committee is composed of county and district employer representatives and CalSTRS staff. The Client Advisory Committee includes CalSTRS staff and members of various organizations representing CalSTRS members and benefit recipients.

These committees meet regularly to provide a forum for active participation in the formation of CalSTRS policies and procedures in areas of information dissemination, benefit plan administration and service to members and beneficiaries.

Reaching consensus with the two committees on legislative proposals, as well as policy issues, is important to the Teachers' Retirement Board. Therefore, CalSTRS employees have also scheduled special meetings and have worked closely with both committees on plan design and other crucial member and employer issues.

Annually, CalSTRS staff conduct an Employer Institute, with one session presented in southern California and another in northern California. CalSTRS processes, laws and policies are discussed with employer staff, giving an opportunity for CalSTRS and employers to exchange information.

CalSTRS staff also conduct field visits to individual counties and school districts. The purpose of the visit is to provide specific information to the employer regarding CalSTRS' data reporting process.

In addition to the reporting procedures, they discuss the use of the Remote Employer Access Program. This program allows the employer direct access to the CalSTRS database for verification and review of the member's service and contribution records, thereby improving the accuracy and timeliness of the reporting process.

